

# NATIONAL CREDIT UNION ADMINISTRATION

# NCUA News

## Board actions – November 17, 2002

## NCUA reduces 2003 budget and operating fee and implements future cost cutting measures

The NCUA Board approved a fiscal 2003 budget \$887,750 or 0.60 percent below the 2002 budget. Based on the adopted budget of \$146,079,711, the Board then approved a 2.13 percent operating fee reduction for 2003. An operating fee assessment of \$56.84 million and a \$88.76 million 62 percent overhead transfer rate, set by the Board last year, will combine to finance the cost of NCUA's 2003 operations. The operating fee scale asset dividing points were increased 12 percent based on estimated asset growth during 2002.

NCUA's budget reduction is primarily due to a 24.2 person reduction in full time staff. The number of NCUA staff positions will decline from 995 in 2002 to 971 in 2003. Since 2000, full time staff is scheduled to decrease by 78.05 positions or 7.44 percent by yearend 2003.

The reduction in staff positions reflects changes occurring within the industry and the recent implementation of NCUA's risk-based examination schedule. While offset by staff reductions, the primary increase to expenses in the 2003 budget is attributed to an overall average increase of 4.5 percent, which includes merit pay and other employee compensation, budgeted to cost \$4 million.

### Region IV to close and Region VI to relocate

To increase agency efficiency, cut costs, and best serve the interests of the credit union community, last year NCUA

implemented Phase I of its Accountability in Management (AIM) working group's recommendation by reorganizing the central office and agency staffing levels. This year, the NCUA Board adopted the second and final phase of AIM recommendations. Expected to cut costs by \$27 million over ten years, Phase II includes the following major regional reorganization:

- Reduce the number of regions from six to five by closing the Region IV office in Lisle, Illinois, and eliminate seven management positions in Region IV.
- Relocate the Region VI office in Concord, California, to a lower cost locality.
- Delegate authority to the Executive Director to initiate all actions necessary to carry out this reorganization, excluding selection of a new location for Region VI, including the reassignment of staff and reallocation of the approved budget to accommodate the actions, and complete the reorganization by May 2005.

Expenses for the reorganization have not been incorporated in the 2003 budget since expenses will be substantially incurred in 2004. However, NCUA will begin reserving sufficient cash to fund these expenses to help alleviate a future "spike" in the operating fee assessment rate.

### Comprehensive chartering & FOM amendments issued

The NCUA Board proposed numerous amendments, including provisions to redefine what constitutes a local commu-

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### Underserved areas gain financial service

During the first 11 months of this year, 210 credit unions added 385 underserved areas resulting in service being offered to an additional 21.1 million potential new members. Multiple common bond credit unions continue to lead the way in adding underserved areas. Of the 385 underserved areas added, single common bond credit unions added 17 areas or 4 percent, community charters added 54 areas or 14 percent and multiple common bond credit unions added 314 areas or 82 percent.

**Wilkes Barre VA Employees FCU** of Pennsylvania expanded into the most underserved areas adding 23 noncontiguous areas with a potential membership increase of 78,275. **SSA Baltimore FCU** in Maryland expanded into the largest single underserved area with the addition of

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Access each NCUA Board member's statement concerning the field of membership proposal issued in November online at <http://www.ncua.gov/news/speeches/speeches.html>

## News briefs

**2003 Report of Officials available** – The 2003 Report of Officials form submitted when new credit union board officials take office is available on the NCUA web site at <http://www.ncua.gov/Ref/roofficials/roofficials.html>

**Letter 02-FCU-14, Volunteer Income Tax Preparation for Credit Union Members** – NCUA is encouraging credit unions to review their business plans and consider establishing a IRS Volunteer Income Tax Assistance (VITA) site that offers free tax preparation services and free electronic filing for credit union members and families.

At credit unions, the IRS uses VITA, in conjunction with increased awareness of the Earned Income Tax Credit (EITC), asset-building opportunities and financial education services, to provide numerous benefits to credit union members. The IRS provides free software and training for VITA volunteers in December so the site can be operational in January 2003.

**Letter 02-FCU-13, Midyear Credit Union Development** – Reports on NCUA efforts in Access Across America, the Small Credit Union Program, Low Income Credit Union Program, and Partnerships with other Organizations.

**Office of Credit Union Development issues quarterly newsletter** – Topics include IRS unemployment benefits, U.S. Post Office Stamps on Consignment Program, USDA programs for credit unions, CDFI, Colonias Workshop, and a Region V article on resources available to credit unions. The newsletter is available online at <http://www.ncua.gov/org/orgchart/ocud/newsletters.html>

**NCUSIF insurance losses** – Reserves for potential losses were increased by \$1.6 million during November due to anticipated losses to the NCUSIF -- \$1.5 million was expensed to increase the national pool reserve and \$100,000 was expensed to increase specific case reserves reported on the NCUSIF reserve needs report.

**NCUSIF equity level** – The equity level of the NCUSIF was 1.30 percent November 30, 2002. The current equity level is

calculated on the June 30, 2002, insured share base of \$444.5 billion.

**Credit union failures** – Through November, 15 credit unions had failed during 2002, one merged with assistance and 14 were involuntarily liquidated. Three involuntary liquidations became purchase and assumptions. The cost of failures to date is \$16.3 million.

**Ombudsman report** – The NCUA ombudsman received one complaint in October. It was referred to the appropriate Region for initial review. Two member complaints are currently under review.

## Regulation Activity

**Truth in Savings, Part 707** – In August 2001, the Federal Reserve amended an interim final rule by lifting the October 2001 compliance date for establishing standards for electronic delivery of disclosures and advertisements. NCUA is required to issue substantially similar regulations and will issue a final regulation after the Federal Reserve finalizes its rule.

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## NATIONAL CREDIT UNION ADMINISTRATION NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Dennis Dollar, Chairman**  
**JoAnn Johnson, Board Member**  
**Deborah Matz, Board Member**

Information about NCUA and its services may be secured by contacting the Office of Public and Congressional Affairs, at 703-518-6330. The weekly Treasury-bill rates are available by calling 800-755-1030 or 703-518-6339.

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Alexandria, VA 22314-3428

## GC opinion letters



The NCUA General Counsel's Office issues opinion letters interpreting agency regulations and policies in response to questions submitted by the credit union community.

To secure the letters mentioned, contact NCUA's Office of Public & Congressional Affairs, 1775 Duke Street, Alexandria, Va. 22314-3428 or access NCUA's web site at [www.ncua.gov/ref/opinionletters](http://www.ncua.gov/ref/opinionletters). Summaries of a few recent opinion letters follow.

**#02-0824 – Participating in loans with prepayment penalties** – An FCU may participate in a loan originated by a state-

chartered credit union provided the FCU participates only in loans "it is empowered to grant," that it does not receive any portion of a prepayment penalty, and its pro rata share of any penalty is forgiven.

**#02-1006 – Loan denial based on location of collateral** – An FCU is not required to provide its services in all states and U.S. Territories and may limit real estate loans to properties within a geographic area because, for example, of concern about its ability to appraise property or pursue a foreclosure if necessary on property located a significant distance from its offices. Nevertheless, an FCU

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### Major 2002 - 2003 budget components

Category	2002 Budget	2003 Budget	\$ Change	% Change
Pay	\$88,814,866.65	\$88,882,054.12	\$67,187.47	0.08%
Benefits	22,137,641.11	21,857,941.35	(279,699.76)	-1.26%
Travel	13,241,903.82	12,778,287.96	(463,615.86)	-3.50%
RCU*	4,203,409.01	4,397,835.27	194,426.26	4.63%
Administrative	12,640,093.17	11,379,258.24	(1,260,834.93)	-9.97%
Contracted*	5,929,547.64	6,784,334.45	854,786.81	14.42%
Total	\$146,967,461.40	\$146,079,711.39	(\$887,750.01)	-0.60%
Subtotal Payroll	110,952,507.76	110,739,995.47	(212,512.29)	-0.19%
Subtotal Non-Payroll	36,014,953.64	35,339,715.92	(675,237.72)	-1.87%

\*There has been no increase in contract staff.

\*Rent, communication and utility increases are tied to higher rental rates and increased insurance costs.

### Board actions

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nity and to offer a new type of occupational common bond, as the agency moves to update and streamline federal chartering and field of membership policy. The comment period closes Feb. 3, 2003.

Based on experience gained addressing chartering and field of membership policy issues over many years, the proposed rule changes include --

- Eliminate overlap protection, except for multiple group credit unions adding select groups of 3,000 or over.
- Clarify how to remove existing exclusionary clauses.
- Redefine "service facilities" for multiple-group credit union expansions to include wholly owned ATMs and shared service facilities if there is an ownership interest.
- Eliminate mandatory qualification requirements for associational charters. Instead, list the factors NCUA will use to determine when an associational common bond exists.
- Clarify that national associations qualify for credit union service when the headquarters is within reasonable proximity to the credit union.
- Add a trade, industry or profession (TIP) designation to the types of groups eligible for a single common bond, occupational-based credit union. A TIP occupational charter would be based on employment in a narrowly defined, close nexus trade, industry or professional group within a defined geographical area.

- Expedite additions to multiple group credit unions under 3,000 and eliminate overlap analysis for select group expansions under 3,000.
- Standardize the agency's criteria for determining a community as follows:
  - A single political jurisdiction (township, city, or county) would meet the definition of a local community and supporting documents are unnecessary.
  - A metropolitan statistical area (MSA), or its equivalent, with less than 1 million residents, may qualify as a local community with a narrative description of community interaction from the credit union.
  - Multiple political jurisdictions, with less than 500,000 residents, may also qualify as a local community with a community interaction description from the credit union.
- Eliminate time-in-place restrictions on occupational, associational or multiple-group credit unions that wish to convert to another type of charter.
- Allow state-chartered credit unions converting to federal charter to retain groups added through emergency FOM provisions and solicit comments on additional options to allow converting credit unions to retain their FOM.

### Comment period extended

The NCUA extended the comment period to December 26, 2002, for the Section 701.19 proposal to modify the FCU employee benefits rule.

### 2003 annual performance plan approved

The NCUA Board approved the NCUA Annual Performance Plan 2003. It reflects next year's budget and coincides with the agency's efforts to streamline business processes, increase efficiency, enhance examinations and manage staff and budget growth as NCUA transitions to a forward-looking organization focused on the safety and soundness of the nation's credit unions.

### Prompt corrective action rule finalized

The NCUA Board adopted a final rule implementing revisions to improve and simplify prompt corrective action (PCA) rule, Part 702. The final rule provides a tiered system of minimum capital standards for federally insured credit unions and corresponding remedies to restore net worth.

The numerous rule revisions include:

- New risk-based net worth (RBNW) "alternative components" for "callable" long-term real estate loans and for loans sold with partial recourse;
- Relaxed minimum quarterly earnings retention requirements for "adequately capitalized" new credit unions; and
- Relaxed requirements for regulator consent to charge losses to the regular reserve and to pay dividends from the regular reserve when undivided earnings are depleted.

### Net worth restoration amendment proposed

The NCUA Board also issued a proposed revision to the PCA rule, with a 60-day comment period, that would allow credit unions to submit an abbreviated 1st tier net worth restoration plan in lieu of a standard net worth restoration plan in the event net worth falls marginally below "adequately capitalized" because rapid share and deposit growth temporarily outstrip income growth.

Eligibility is based on historical net worth, growth and performance. First, the credit union's current net worth ratio must be at least 5.5 percent preceded by three quarters with a minimum 6 percent ratio.

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If a risk-based net worth requirement applies, the credit union must not have failed it by more than 50 basis points. Second, over the current and three preceding quarters the credit union's net worth ratio must have increased by the equivalent of 60 basis points return on average assets. Third, growth in total assets over the current and three preceding quarters cannot exceed 110 percent growth in net worth, shares and deposits.

### IRPS proposal would redefine small credit unions and amplify NCUA's regulatory review policy

The NCUA Board issued proposed *Interpretive Ruling and Policy Statement (IRPS) 02-4* to amend the *Regulatory Flexibility Act* provisions of IRPS 87-2 and redefine a small entity as a credit union under \$10 million in assets, thereby increasing the \$1 million definition set in 1981. The comment period is 60 days. This definition does not affect the NCUA's small credit union definition tied to the Small Credit Union Program.

The proposed rule also amplifies a provision regarding NCUA's policy of reviewing all existing regulations every three years by stating that one-third of existing regulations will be reviewed each year and the public will receive notice of those regulations under review.

### Community conversion approved

The NCUA Board approved a request from \$229 million **Navy Army Federal Credit Union**, Corpus Christi, Texas, to convert to a community charter able to serve the people who live, work, worship, attend school and business and other legal entities in Nueces and San Patricio Counties, the incorporated Corpus Christi metropolitan statistical area.

**Votes are unanimous unless otherwise indicated.**

## Board actions – December 19, 2002

### NCUSIF operating level set at 1.3 percent for 2003

The NCUA Board set the National Credit Union Share Insurance Fund operating level at 1.3 percent for 2003, retaining the 2000 – 2002 normal operating level.

The NCUSIF operating level is the ratio of fund equity less unreserved contingent liabilities divided by insured shares. By law, the NCUA Board must set the normal operating level between 1.2 and 1.5 percent.

While currently at 1.30 percent, the NCUSIF equity ratio is expected to dip temporarily to 1.25 percent based on expected 11.5 percent insured share growth in the final six months of 2002. By March 2003, the equity ratio should return to 1.3 percent due to deposit adjustment funding.

The NCUSIF reserve balance was \$46.1 million at November 30. The NCUA Board has established a goal of \$60 million in unallocated insurance reserves and beginning last July \$1.5 million is being added monthly to reserves. Through November, 15 credit unions failed in 2002 at a cost of approximately \$16.3 million, and the NCUSIF is projected to end 2002 with insurance provision expenses of about \$12.4 million.

### Modifications to Investment and RegFlex rules proposed

The NCUA Board issued proposed changes to Part 703 of the regulations to expand investment authorities, clarify existing rules and reformat the rule to make it easier to read and locate information. The proposal was issued with a 60-day comment period.

Originally issued in October 2001 as an *Advanced Notice of Proposed Rulemaking*, specific areas now cited for change include the purchase of commercial mortgage related securities, and options to offer equity-linked share CDs. Other changes include limits to investments under discretionary control of an investment advisor and borrowing repurchase agreements.

The proposal would also exempt RegFlex eligible credit unions from several investment restrictions, and a pro-

posed change to Part 742 ensures the RegFlex Program conforms to the investment rule revisions proposed.

The *Federal Credit Union Act* constrains permissible investments largely to Treasury, agency, or insured instruments; therefore, certain instruments such as high quality asset-backed securities and commercial paper cannot be purchased by federal credit unions. However, commercial mortgage-related securities and equity options for the purpose of offering equity index-linked dividends are candidates for expanding investment powers. As proposed, both programs would be subject to certain restrictions and qualifications to mitigate much of the risk associated with the programs, and permit only RegFlex eligible credit unions to purchase commercial mortgage related securities.

Equity-linked option powers are being included after a successful pilot program trial period. This proposal supports NCUA's ultimate goal to incorporate reasonable standards into regulations after monitoring credit union performance. To facilitate additional applications for pilot programs, NCUA will publish the standards developed from successful applications.

Brokered CDs have gained significant attention over the past several years after a few broker dealers misled or deceived investors about the characteristics of these apparent benign investments. NCUA carefully considered if changes were needed to the existing rules. The agency determined the current rules are reasonable and prudent, and while additional requirements would not necessarily prevent future problems they may impede credit unions from obtaining competitive yields. Board Member Deborah Matz asked that NCUA staff review examination procedures related to CD brokered-deposits.

### 2003 Revolving Loan Fund interest rate is 1 percent

The NCUA Board voted to retain the present 1 percent interest rate for loans

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## About investments

# Safekeeping alert! Protect CD investments

Credit unions may continue to be financially hurt by failure to do proper due diligence of their investment safekeepers.

This article first appeared in the February/March 2002 issue of NCUA NEWS and provides excellent guidance and recommendations for safekeeping investments that bears repeating.



The record keeping accuracy of third-party safekeepers is a major concern in light of failures among CD brokers. Credit unions (CUs) involved in safekeeping arrangements must rely on accurate record keeping in order to:

- Protect ownership interest in the event a safekeeper enters bankruptcy or liquidation; and
- Ensure the credit union can collect deposit insurance in the event a CD issuer fails.

To understand the safekeeping process and the importance of accurate records, it helps to define the terms "nominee" and "chain of custody." A "nominee" is a person or firm (e.g., corporate CU, bank or broker-dealer) in whose name CDs are transferred by agreement and held for "others." For our purpose, "nominee" refers to the safekeeper or custodian and "others" refers to actual credit union owners.

When a custodian safekeeps a CD, typically the books of the CD issuer will show the custodian titled (as owner) on the certificate, as a "nominee for others." This signals the need to look at the custodian's records to determine the ownership of the CD. The custodial books should show the CU as having a beneficial ownership interest in the CD. Alternatively, the nominee custodian's records may list yet another nominee custodian, to whose records we would turn to determine ownership. This process (or string) of safekeeping records is called a "chain of custody." **Although the chain of custody may involve multiple participants, a CU should ensure the first link in the chain, its safekeeper, is safe and sound. This custodian is the CU's protection against potential losses from negligent record keeping within the chain of custody.**

**CU boards and management should ensure CDs and other investments held in safekeeping are protected by using sound business practices that include:**

- Establish an investment policy that protects CDs held in safekeeping by requiring thorough due diligence before contracting with a custodian. Due diligence should include researching and documenting the capital strength, operating results, and reputation of the custodian, including appropriate background checks (e.g., contacting the primary regulator of the safekeeping entity).
- Carefully read and execute a written custodial agreement before a transaction takes place. Ensure the custodian agrees in the contract to exercise ordinary, reasonable, or due care (or some higher level) to protect investments held in safekeeping. This makes the custodian liable for negligence in caring for and protecting investments held in custody.
- Carefully read any customer account agreement, disclosure statement or fine print provided by any CD broker before completing a CD transaction. The customer account agreement may include a safekeeping agreement with undesirable restrictions on transfer of the CD or limitations on liability for safekeeping.
- Consider cost and service when establishing a safekeeping account. Obtain and understand a written fee structure for broker and custodial services. Balance a lower cost against the necessity to ensure a financially sound, reputable safekeeper.
- Review the accuracy of each safekeeping receipt with the broker's confirmation. The safekeeping receipt and periodic statement of account from the safekeeper should be consistent with information contained on the broker's purchase confirmation. Reconcile periodic (e.g., monthly) statements custodians provide for CDs held in safekeeping.
- If you have any questions about a CD, demand the safekeeper provide information about your beneficial ownership interest. Ask for clear evidence verifying the "chain of custody" to ensure the CU has a beneficial ownership interest. For negotiable (DTC registered) CDs, the credit union should send a "positive con-

firmed" audit letter up through the chain of custody. For non-negotiable CDs, the credit union should request the safekeeper provide a copy of the CD title or account statement as issued by an FDIC-insured bank, savings association, or NCUA-insured credit union. The title on the CD should read something like "XYZ Safekeeper as Nominee for Others." Such language appearing on the account record of the issuer indicates the custodian is acting as an agent on behalf of the CU investor and for other depositors. It also reinforces evidence of pass-through deposit insurance.

- Ensure the CD issuer is federally insured by contacting FDIC for banks and thrifts and NCUA for credit unions as follows:

- Web search for insured banks and their certificate numbers at [www.fdic.gov](http://www.fdic.gov), by following the links to either "Is My Bank Insured?" or "Individual Banks" and "Institution Directory."
- Web search for insured credit unions and their charter numbers at [www.ncua.gov](http://www.ncua.gov), by following the link to "Credit Union Data." A list of all federally insured CUs is available by following the links "About Credit Unions" and "Credit Union Directory." Contact the agencies through regular mail, e-mail or phone at:

Federal Deposit Insurance Corporation  
Division of Compliance and  
Consumer Affairs  
550 17th Street, N.W.  
Washington, DC 20429-9990  
800-934-3342 or 202-942-3100;  
e-mail address: [consumer@fdic.gov](mailto:consumer@fdic.gov)

National Credit Union Administration  
Office of Public and  
Congressional Affairs  
1775 Duke Street, 7th Floor  
Alexandria, VA 22314  
800-827-6282, ext. 6330 or 703-518-6330  
e-mail address: [pacamail@ncua.gov](mailto:pacamail@ncua.gov)

Finding an independent, financially sound, trustworthy custodian to safekeep CDs is an important part of the investment process, and CU boards must choose wisely.

In addition to the best practices outlined above, FCUs must also adhere to Part 703 of NCUA's Rules and Regulations pertaining to CD investments, broker-dealers and safekeeping.



**Who and What:** Board Member Deborah Matz will meet with the Northern Virginia Chapter of Credit Unions.  
**When:** 7:30 p.m., Thursday, Jan. 9, 2002  
**Where:** PJ Skidoo's Restaurant, Fairfax, Va.

**Why:** Board Member Matz will share her insight about the future of the credit union movement. Participant feedback will be solicited on NCUA initiatives and policies.

**Contact:** Patty Jenkins at 703-518-6318, or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov)

**Who and What:** Chairman Dennis Dolar will speak at the Connecticut Credit Union League's Governmental Affairs Conference.

**When:** 1 p.m., Monday, Jan. 13, 2002  
**Where:** Hilton Hartford Hotel, Hartford, Conn.

**Why:** Participant feedback will be considered and solicited on NCUA initiatives and policies. Q&A with participants is scheduled.

**Contact:** Nicholas Owens at 703-518-6336, or [nowens@ncua.gov](mailto:nowens@ncua.gov)

**Who and What:** Board Member JoAnn Johnson will address the New York Credit Union League.

**When:** Wednesday, Jan. 15, 2002  
**Where:** Rochester, N.Y.

**Why:** Board Member Johnson will share her insight into credit unions and the future direction of NCUA.

**Contact:** Heather Graham at 703-518-6309, or [hgraham@ncua.gov](mailto:hgraham@ncua.gov)

**Who and What:** Board Member JoAnn Johnson will address the CEO Summit.

**When:** Monday, Jan. 20, 2003

**Where:** Sheraton Yankee Trader Hotel, Fort Lauderdale, Fla.

**Why:** Board Member Johnson will share her insight into credit unions and the future direction of NCUA.

**Contact:** Heather Graham at 703-518-6309, or [hgraham@ncua.gov](mailto:hgraham@ncua.gov)

**Who and What:** Board Member Deborah Matz will speak at the National Association of Federal Credit Unions CEO Conference.

**When:** 11 a.m., Friday, Jan. 24, 2002

**Where:** Saddlebrook Resort, Tampa, Fla.

**Why:** Board Member Matz will share her insight about the future of the credit union movement. Participant feedback will be solicited on NCUA initiatives and policies.

**Contact:** Patty Jenkins at 703-518-6318, or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov)

**Who and What:** Chairman Dennis Dolar will hold an Open Forum.

**When:** 10 to 2, Thursday, Jan. 30, 2003

**Where:** Sheraton Birmingham South Hotel, 8 Perimeter Drive, Birmingham, Ala.

**Why:** Participant feedback will be considered and solicited on NCUA initiatives and policies. Q&A with participants is scheduled.

**Contact:** Nicholas Owens at 703-518-6336, or [nowens@ncua.gov](mailto:nowens@ncua.gov)

## Underserved areas

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631,265 potential new members. From a state perspective, Pennsylvania leads the way by adding 56 underserved areas, followed by Texas, with 51 areas added.

Through November, most underserved areas were added by credit unions with assets of \$20 to \$50 million. These institutions added 100 underserved areas with a potential membership increase of 3.6 million and comprise 16.90 percent of all potential members added. Credit unions between \$100 to \$250 million in assets followed by expanding into 70 areas adding 4.3 million in potential members that comprise 20.30 percent of all potential members added through underserved area expansions.

## Credit union development activity

### Community Development Revolving Loan Fund statistics

CDRLF loans approved in October	1
Amount approved in October	\$290,000
Amount in process	\$800,000
Number in process	3
Outstanding balance	\$7,427,624
Number of loans	73

### Technical assistance grants

Grants approved	16
Amount approved in October	\$35,896
Number of grants	
disbursed year-to-date	217
Amount of grants disbursed year-to-date	\$566,705



**November 8, 2002, Des Moines, Iowa** – Board Member JoAnn Johnson (center) meets with Iowa credit union league members.



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# NATIONAL CREDIT UNION ADMINISTRATION

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	1076S	(8/00)		\$ 1.00/2	
Sign (7"x3") (specify Spanish or English) (7"x3") with stand	1076	(11/86)			
	1076S	(8/00)		\$ 1.00\$ 1.00	
Annual Report of the National Credit Union Administration	8000	(2001)		\$ 5.00	
Federal Credit Union Bylaws	8001	(10/99)		\$ 3.50	
Federal Credit Union Handbook	8055	(1999)		\$ 3.50	
The Federal Credit Union Act	8002	(10/98)		\$ 3.00	
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NCUA Examiner's Guide <sup>1</sup>	8018	(6/02)		\$85.50	
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Your Insured Funds (in Spanish)	8046S	(12/00)		\$14.00/50	
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Midyear Statistics for Federally Insured Credit Unions	8060	(6/02)		\$ 5.50	
Tips to Safely Conduct Financial Transactions Over the Internet	8061	(6/02)		50/\$20.00	
Is A Credit Union Right for Me?	8071	(6/02)		100/\$8.00	
Is A Credit Union Right for Me? (in Spanish)	8071S	(6/02)		100/\$8.00	
NCUA Credit Union Directory	8602	(01)		\$ 15.00	
A Guide to HMDA Reporting	9003	(1/98)		\$ 5.00	
HMDA Notice Poster	3222P	(6/97)		N/C	
Supervisory Committee Guide for Federal Credit Unions	8023	(12/99)		\$ 12.00	
Suspicious Activity Report Form (2 diskettes per order)					
*Windows & User's Guide Software	9004	(7/96)		\$ 10.00	
*DOS & User's Guide Software	9005	(7/96)		\$ 10.00	
*Windows Package & Documentation	9006	(7/96)		\$ 15.00	
*DOS Package & Documentation	9007	(7/96)		\$ 15.00	
Subscription to NCUA Publications <sup>2</sup>	9001	(1/03 - 12/03)		\$125.00	
		(7/03 - 12/03)		\$ 62.50	
FFIEC Information Systems Manual Vol 1&2	9002	1996 Edition		\$ 62.50	
				\$ 50.00	

<sup>1</sup>NCUA's Examiners' Guide is excluded from the Subscription Service.

<sup>2</sup>NCUA offers a one-year subscription service for all publications issued to credit unions. The service includes all publications distributed to credit unions, as well as Letters to Credit Unions, Proposed and Final Rules and Policy Statements (IRPS), etc.. Subscriptions may be purchased any time of the year. Your subscription and/or renewal becomes effective with the first publication issued after receipt of your payment. Back issues of publications will not be provided through the subscription service. Copies of any publication identified above will be available at the cost indicated and may be requested separately. The expiration of the one-year renewal subscription, regardless of when your request is processed, is December 31st. Renewal notices will be sent out approximately one month before your subscription expires.



## NCUA and the Neighborhood Reinvestment Corporation to issue partnering opportunities booklet

### *Credit Union Partnerships With NeighborWorks® Organizations*

Chairman Dennis Dollar announced NCUA and the Neighborhood Reinvestment Corporation are jointly releasing a booklet early next year listing current partnerships between credit unions and local NeighborWorks® Organizations (NWOs) affiliated with the Neighborhood Reinvestment Corporation (NRC). The booklet is titled *Credit Union Partnerships With NeighborWorks® Organizations - A Proven Model for Building Healthy Communities*.

"This booklet demonstrates innovative and collaborative work between credit unions and the NWOs to strengthen communities and foster the growth in homeownership the President is pursuing through his minority homeownership initiative," Chairman Dollar said. "This reflects some of the resources available to credit unions to supplement their efforts in expanding service while maintaining safe and sound operations."

Board Member Deborah Matz, who is the agency's representative on the Board of the Neighborhood Reinvestment Corporation encourages credit unions to consider partnering with the NRC and its affiliates.

"The stories told in this booklet reflect the similar goals that credit unions and the NWOs have in helping people who do not have ready access to traditional financial institutions," Matz said. "The NWOs and credit unions can both benefit by working together furthering the outreach efforts of local NWOs while providing credit unions a cadre of potential members who have received extensive counseling in financial education and an opportunity to access the secondary market for non-conventional mortgage loans."

Ellen Lazar, the Executive Director of the NRC, who was instrumental in the production of the booklet, is pleased with the results of the collaborative effort with

the NCUA. "We knew there was a story to tell of the work credit unions and NWOs have performed together in strengthening their communities. With the support of the NCUA Board, we've demonstrated the potential in furthering these partnerships to provide opportunity for homeownership," said Lazar.

The release of the booklet supplements the "Access Across America" workshops NCUA has conducted. Both the NCUA and NRC have partnered with the White House and the Department of Housing and Urban Development to achieve President Bush's goal of creating 5.5 million new minority homeowners by the end of the decade.

"Through our 'Access Across America' initiative we will continue to identify and present opportunities to further credit unions' abilities in providing their services to all who wish it," said Dollar. "We are extremely pleased to share information with the credit union community on the NRC and its affiliates, and to have worked with the NRC to produce this booklet."

Obtain copies of this booklet by contacting NCUA's Office of Credit Union Development at 703-518-6610 or via e-mail: [ocudmail@ncua.gov](mailto:ocudmail@ncua.gov).



Visit NCUA's extensive  
web site at  
[www.ncua.gov](http://www.ncua.gov)

## James appointed E&I Deputy Director



NCUA Executive Director J. Leonard Skiles announced today the appointment of Region II Director Tawana Y. James to the position of Deputy Director of the Office of Examination and Insurance (E & I) at NCUA's headquarters in Alexandria. The appointment was made by Skiles after unanimous approval by the NCUA Board.

James, who sought appointment to the key position within the E & I Department, comes to the position after having most recently served for nearly five years as NCUA Region II Director. As Deputy Director, James will assist Examination & Insurance Director David Marquis in overseeing the agency's supervision and examination program, risk management and data collection programs.

James, who sought appointment to the key position within the E & I Department, comes to the position after having most recently served for nearly five years as NCUA Region II Director. As Deputy Director, James will assist Examination & Insurance Director David Marquis in overseeing the agency's supervision and examination program, risk management and data collection programs.

"Tawana James is an asset to NCUA's executive management team," said Chairman Dennis Dollar, "and I welcome her return to headquarters. In filling this important leadership position, Tawana's well-honed skills in managing a multi-state region will bring valuable field management expertise that will serve to further strengthen the agency's supervision and examination program." "I've really enjoyed the years spent as Director of the Region II office," said Tawana James, "and I'm pleased the Executive Director and the NCUA Board selected me as Deputy Director of Examination and Insurance. I've long considered E&I to be the heart of NCUA's supervision program and I look forward to the opportunity to once again be involved in developing and implementing supervision policy."

Tawana James joined NCUA in 1980. During her tenure she has served as an examiner, problem case officer and loss case officer. In Region II, she served as director of Supervision, associate regional director of Operations and regional director. James was also NCUA's deputy executive director for nearly two years.

# Credit unions continue positive growth

The nation's 9,751 federally insured credit unions (FICUs) reported continued strong asset and savings growth and steady loan and income growth during the first nine months of 2003. This September call report cycle marks the first time all FICUs completed quarterly call reports. Previously, only FICUs over \$50 million reported call report data during the September reporting cycle.

Nearly all categories of loans showed growth in the third quarter of 2002, while real estate loans exhibited the largest increase. In addition, nearly 1.6 million additional people became credit union members in the first nine months of 2002. This brings total federally insured credit union membership to 80.9 million.

## Primary account fluctuations

Between December 31, 2001 and September 30, 2002, federally insured credit unions' 5300 call report data yielded the following results:

- Total assets increased 9.33 percent, up from \$501.5 to \$548.3 billion;
- Savings increased 9.18 percent, up from \$437.1 to \$477.3 billion,
- Loans increased 5.59 percent, up from \$322.4 to \$340.5 billion;
- Loan delinquency ratio declined from 0.82 to 0.78 percent as delinquent loans declined 0.15 percent, down from \$2.646 to \$2.642 billion;
- Loan to share ratio declined from 73.77 to 71.34 percent;
- Net worth increased 7.76 percent, up from \$54.4 to \$58.6 billion;
- Net worth to total assets ratio declined from 10.84 to 10.68 percent; and
- Membership grew 1.97 percent, up from 79.4 to 80.9 million members.

## Primary account fluctuations

First mortgage real estate loans and other types of real estate loans dominated loan category growth, moving up respectively 9.93 percent, from \$89.1 to \$98.0

billion, and 10.35 percent, from \$43 to \$47 billion. Used auto loans grew 7.56 percent, up from \$66.4 to \$71.4 billion, compared to the 2.0 percent growth in new auto loans, up from \$60.3 to \$61.5 billion.

## Savings continue to grow

Total credit union savings grew 9.18 percent, up from \$437.1 to \$477.3 billion. Regular shares grew 13.49 percent, up from \$149.5 to \$169.6 billion, while share drafts grew 7.10 percent, up from \$54.2 to \$58.0 billion and all other savings grew 6.90 percent, up from \$233.5 to \$249.6 billion.

The September 2002 reporting cycle introduced a "short form" 5300 Call Report for those institutions with less than \$10 million in assets to use for first and third quarter reporting. Of the 9,751 credit unions that submitted call reports in September, 4,240 completed the short form.

Federally insured credit union data is available on the NCUA website at [www.ncua.gov/indexdata.html](http://www.ncua.gov/indexdata.html).

## News briefs

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**Overseas branching** – The comment period ends December 26, 2002, on a proposed overseas branching rule for federally insured credit unions.

**Share Insurance, Part 745** – NCUA intends to issue a proposed rule soon on NCUSIF insurance coverage to clarify parity with FDIC deposit insurance coverage.

**Advertising, Part 740** – The comment period closed November 25, 2002, on a proposal that includes provisions related to advertising on websites and notice requirements for electronic transfers.



**November 14, 2002** – Board Member Matz meets with Thomas Curry, Commissioner of Banks for the Commonwealth of Massachusetts and Daniel Egan, Jr., President of the Massachusetts Credit Union League during the Access Across America Workshop in Boston, Mass.

## Board actions December 19, 2002

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granted in 2003 by the Community Development Revolving Loan Fund (CDRLF), and the Board voted to accept loan applications throughout the upcoming year.

The CDRLF program was formed to assist low-income designated credit union's outreach to the field of memberships they serve. At November 30, 2002, the CDRLF had \$7.3 million in outstanding loans and a zero delinquency rate. Based on loan repayments, the Fund will have approximately \$6.1 million available for loans in 2003.

In addition, the Fund's technical assistance grants program approved 213 grants totaling \$632,076 through November 30, 2002. Congress has yet to approve new funding for 2003.

### Federal Corporate Bylaws issued for comment

The NCUA Board issued proposed revised *Corporate Federal Credit Union Bylaws* to update, modernize and clarify the bylaws originally drafted in 1983. The proposed revisions, issued with a 60-day comment period, reflect the current legal and financial environment within which corporate credit unions operate and recognize the technological advances corporate credit unions utilize.

### Charter modifications

#### Community conversions approved

The NCUA Board approved the request from \$630 million **ORNL Federal Credit Union**, Oak Ridge, Tennessee, to convert from occupational to a community-based charter to serve the Tennessee counties of Anderson, Blount, Campbell, Claiborne, Cocke, Grainger, Hamblen, Jefferson, Knox, Loudon, Monroe, Monroe, Morgan, Roane, Scott, Sevier and Union. Many census tracts within these counties qualify as "underserved" areas.

The NCUA Board approved the request from \$275 million **Dort Federal Credit Union**, Flint, Michigan, to convert from multiple-group to community-based charter able to serve the people who live, work, worship or attend school and businesses and other legal entities in Genesee, or Lapeer, or Shiawassee Counties, and

Deerfield Township or Tyrone Township in Livingston County, and community volunteers. Many census tracts within these counties are designated "underserved" areas.

The NCUA Board approved the request of \$125 million **Security 1st Federal Credit Union**, McAllen, Texas, to convert to a community-based charter able to serve the people who live, work, worship, attend school and businesses and other legal entities in Cameron, Hidalgo, Starr and Willacy Counties, Texas. Of the 139 census tracts within these counties, 122 qualify as "underserved."

#### Community expansion approved

The NCUA Board approved the request from \$185 million **Central One Federal Credit Union**, Shrewsbury, Mass., to expand its community charter to serve the people who live, work, worship, attend school and businesses and other legal entities in 25 contiguous municipalities covering portions of Worcester, Massachusetts and Middlesex Counties.

#### Underserved area addition approved

The NCUA Board approved the request from \$361 million **City-County Federal Credit Union**, Brooklyn Center, Minnesota, to add the underserved area of the city of Minneapolis to its multiple common bond field of membership. The city has long met the requirements of an "investment area." Most recently, the 2000 census demonstrated the Minneapolis' median family income is well below 80 percent of the metropolitan area's median family income.

#### FOM expansion appeal denied

The NCUA Board denied the appeal of **Johns Hopkins FCU**, Baltimore, Md., to reverse the Region II Director's decision to deny the credit union's request to expand its field of membership to serve all employees who work on the Johns Hopkins Bayview Medical Campus.

Johns Hopkins FCU, a multiple common bond credit union, submitted an expansion request to add all employees who work on the Johns Hopkins Bayview Medical Campus. The expansion is not within current NCUA field of membership policy as set forth in IRPS 99-1, as amended, because no associational tie ex-

## GC opinion letters

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may not discriminate in any case in violation of federal or state laws in determining whether to extend credit to a member.

#### #02-1071 – Trust-only thrift ownership

– An FCU has the authority to invest in a credit union service organization (CUSO) trust-only thrift. While an FCU may not acquire control directly or indirectly of a deposit taking financial institution, a CUSO may provide trust services, which has been a permissible CUSO activity for 24 years, and hold the minimum deposit required for FDIC insurance.

**#02-1105 – FCU director election requirements** – The FCU Bylaws, which provide for staggered terms for directors, does not conflict with the FCU Act, requiring annual elections for the board of directors.

#### #02-1112 – Mortgage loan policies favoring a class of credit union members

– An FCU can offer preferential mortgage loan terms to credit union members if a rational basis exists for distinguishing loan terms for different members on the same type of loan.

However, caution must be taken in offering more favorable loan policies where the difference in terms is unrelated to the member's creditworthiness. In addition, other federal and state laws must be considered. In particular, if a policy is found to be facially discriminatory or, if it has the effect of discriminating against a protected group, the FCU risks violating the Federal Reserve Board's Regulation B, 12 C.F.R. Part 202, as well as NCUA regulations concerning non-discrimination in real estate lending. 12 C.F.R. §701.31.

ists. Under current policy, the FCU could add all employees of the Campus as individual employee select groups. The FCU did not pursue this method of expansion.

**Votes are unanimous unless otherwise indicated.**



## NCUA posts NCUSIF deposit estimator, deposit statements and EFT authorization forms on the Internet

### 1 percent NCUSIF deposit calculator and deposit statements are available electronically

Credit unions can now calculate their estimated 1 percent National Credit Union Share Insurance Fund (NCUSIF) deposit requirement as well as view and download their Share Insurance Fund capitalization deposit statement electronically on NCUA's web site.

NCUA added these tools to assist credit unions calculate their 1 percent NCUSIF deposit any time during the year and to ensure each credit union NCUSIF capitalization deposit statement is readily accessible. NCUA will continue to accept a written audit confirmation if a signature is required.

For the foreseeable future, NCUA will continue to provide written NCUSIF deposit statements semiannually.

On NCUA's web site [www.ncua.gov](http://www.ncua.gov), access the

- NCUSIF calculator at <http://65.170.13.199/CapDep/OnePercent.asp>

- NCUSIF deposit statement at [http://65.170.13.199/CapDep/SI\\_CapDepMain.asp](http://65.170.13.199/CapDep/SI_CapDepMain.asp)

### NCUSIF authorization for electronic funds transfer added to NCUA's web site

The authorization agreement form to initiate electronic fund transfers so credit union deposits and refunds can be distributed quickly and safely electronically is now available on NCUA's web site.

Public Law 104-134 (*the Debt Collection Improvement Act of 1996*) required federal payments, with the exception of Internal Revenue Service tax refunds, be made by electronic fund transfer (EFT) effective January 1, 1999. NCUA advised credit unions of this requirement in NCUA *Letter to Credit Unions* 97-CU-7. Most credit unions receive NCUSIF dividends and refunds electronically.

To initiate electronic fund transfers, retrieve and complete the form and either mail or fax it to NCUA using the information provided at [http://www.ncua.gov/ref/eft\\_form/eft.html](http://www.ncua.gov/ref/eft_form/eft.html)



**December 3, 2002, Washington, DC** – Housing and Urban Development Secretary Mel Martinez with NCUA Chairman Dennis Dollar at the HUD unveiling of a mural by Xavier Cortada highlighting the White House Conference on Minority Homeownership, which focuses on increasing the American Dream of minority homeownership by 5.5 million by the end of the decade.

Happy New Year

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**NCUA News**

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